

## Message Text

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PAGE 01 ROME 13620 201537Z

53

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

CIAE-00 COME-00 DODE-00 DOTE-00 FMC-01 INR-07 NSAE-00

SAL-01 CG-00 DLOS-06 OES-06 AID-05 FRB-03 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

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O 201500Z AUG 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 9552

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PASS TREASURY AND COMMERCE

E.O. 11652: N/A

TAGS: EFIN, IT, EWWT, EAIR

SUBJECT: ITALIAN PRIOR DEPOSIT PROGRAM: SHIPPING LINES

REF: ROME 13202

SUMMARY: EMBASSY ASSUMES THAT WASHINGTON AGENCIES ARE CONSIDERING ISSUES RAISED IN REFTEL AND UNDERSTANDS THAT DECISION ON POSSIBLE WITHHOLDING OF WAIVERS BY MARAD MAY BE IMMINENT. UNDER THESE CIRCUMSTANCES, EMBASSY WISHES PROVIDE SOME FURTHER COMMENTS AND SUGGESTIONS. END SUMMARY.

1. AS REFTEL INDICATES, MINISTRY OF FOREIGN TRADE (MFT), WHICH IS MINISTRY DIRECTLY RESPONSIBLE FOR POLICY AND EXECUTION OF PRIOR DEPOSIT SYSTEM, HAS BEEN RETHINKING ISSUE OF "DISCRIMINATION". MFT IS NOT CONVINCED THAT ACTION ON ITS PART IS WARRANTED SINCE "DISCRIMINATION" IS MERELY FALLOUT OF DELIBERATE ACTION TO CREATE DISINCENTIVES TO ALL PURCHASES OF FOREIGN EXCHANGE IN ORDER TO REDUCE BALANCE OF PAYMENTS

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PAGE 02 ROME 13620 201537Z

PROBLEM. AT SAME TIME, HOWEVER, MFT AND OTHER GOI AGENCIES

STRONGLY HOPE MARAD WILL NOT TAKE ANY RETALIATORY ACTION.

2. PART OF ISSUE IS THAT OF APPROPRIATE DEFINITION OF "DISCRIMINATION". WHILE THERE IS NO DISCRIMINATION AMONG FOREIGN SHIPPING CARRIERS, THERE IS "DISCRIMINATION" IN THE SENSE THAT THE PRIOR DEPOSIT SCHEME PROVIDES COMPETITIVE ADVANTAGE TO ITALIAN SHIPPING LINES OVER FOREIGN LINES INCLUDING US. PERHAPS "DISADVANTAGE" WOULD BE MORE ACCURATE THAN "DISCRIMINATION". THIS SITUATION IS REFLECTION OF CONFLICT BETWEEN (A) OVERALL POLICY OBJECTIVE OF REDUCING DEMAND FOR AND USE OF FOREIGN EXCHANGE, WHICH IS AIMED AT LIMITING FOREIGN PAYMENTS FOR SERVICES AS WELL AS FOR GOODS AND CAPITAL MOVEMENTS (IN WHICH US HAS ACQUIRED IN IMF AND GATT), AND (B) MEASURES WHICH ADVERSELY AFFECT US SHIPPING LINES.

3. GOI'S POSITION AS NOW REFLECTED BY MFT IN REFTEL SEEMS TO US TO BE WEAKENED BY TWO FACTORS:

(A) EVER SINCE EMBASSY RAISED ISSUE OF DISCRIMINATION, ALL MINISTRIES HAVE AGREED THAT "DISCRIMINATION" EXISTED AND THIS CONTINUES TO BE THE CASE (E.G., FOREIGN MINISTRY AND MINISTRY OF MERCHANT MARINE) WITH EXCEPTION OF MFT. ACCORDINGLY, PRIOR TO CONVERSATIONS REPORTED REFTEL, GOI HAD CONTINUOUSLY PROMISED THAT MEASURES WOULD BE TAKEN TO REMOVE THE DISCRIMINATION. NOW NOT ONLY IS NO ACTION APPARENTLY IMMINENT BUT GOI MAY BE PULLING BACK FROM EARLIER RECOGNITION OF DISCRIMINATION.

(B) RIGHTLY OR WRONG, GOI MADE EXCEPTION FOR BOTH AIR AND MARITIME PASSENGER TRAFFIC. WHILE CIRCUMSTANCES ARE SOMEWHAT DIFFERENT, IT IS NONE THE LESS HARD TO FOLLOW LOGIC OF MAKING EXCEPTION FOR ONE BRANCH OF TRANSPORTATION AND NOT ANOTHER.

4. IN EMBASSY'S VIEW, SITUATION IS NOW AS FOLLOWS:

(A) IF MARAD PROCEEDS TO WITHHOLD WAIVERS, GOI WILL BE UNHAPPY AND EMBARRASSED. ON BASIS OF CONVERSATION REPORTED REFTEL, GOI CLEARLY CONSIDERS BALL IN US COURT AND EMBASSY FEELS THAT IT HAS OBLIGATION TO PROVIDE ADVANCE NOTIFICATION OF ANY RETALIATORY MEASURES.

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PAGE 03 ROME 13620 201537Z

(B) WE BELIEVE WASHINGTON AGENCIES SHOULD DECIDE WHETHER DISCRIMINATION DOES OR DOES NOT EXIST. IN CASE OF AFFIRMATIVE DECISION, AGENCIES SHOULD DECIDE WHETHER THERE ARE OVERRIDING FACTORS WHICH WOULD PRECLUDE RETALIATION BY US. IF NOT, WE SHOULD ADVISE GOI IN ADVANCE OF PLANNED RETALIATORY ACTION AND GIVE SPECIFIED PERIOD BY WHICH REMEDIAL ACTION BY GOI MUST BE TAKEN.

(C) ONLY FORMS OF REMEDIAL ACTION SEEM TO BE (I) ADMINISTRATIVE MEASURE TO PERMIT US CARRIERS TO HOLD NON-CONVERTIBLE LIRA ACCOUNTS AND THEREFORE NOT BE OBLIGED TO MAKE PRIOR DEPOSIT ON THOSE FUNDS WHICH THEY ARE ABLE TO HOLD OR EXPAND IN ITALY AND (II) GOVERNMENT DECREE GRANTING OUTRIGHT EXEMPTION FOR SHIPPING LINES FROM PRIOR DEPOSIT PROVISIONS. WE RECOGNIZE THAT FIRST ALTERNATIVE WOULD NOT FULLY SATISFY US SHIPPING LINES BUT NOTE THAT GOI IS CLEARLY RELUCTANT TO ISSUE DECREE BECAUSE IT WOULD OPEN DOOR TO PRESSURES FOR VARIOUS GROUPS TO SEEK SIMILAR EXEMPTIONS.

5. REQUEST COMMENTS. BEAUDRY

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TRADE, DISCRIMINATION, POLICIES, PROGRAMS (PROJECTS)  
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**Copy:** SINGLE  
**Draft Date:** 20 AUG 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ShawDG  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976ROME13620  
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**Drafter:** n/a  
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**Errors:** N/A  
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**Original Handling Restrictions:** n/a  
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**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 ROME 13202  
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